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12/6/2007

IN THE

Supreme Court of the United States

DEPARTMENT OF REVENUE OF
THE COMMONWEALTH OF KENTUCKY, et al.,

Petitioners,

v.

GEORGE W. DAVIS AND CATHERINE V. DAVIS,

Respondents.

ON WRIT OF CERTIORARI TO THE KENTUCKY COURT OF APPEALS

RESPONDENTS' SUPPLEMENTAL APPENDIX

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STATE LAWS GOVERNING TAXATION OF IN-STATE BONDS AND OUT-OF STATE BONDS		
STATES THAT IMPOSE TAX ON INTEREST EARNED ON OUT-OF-STATE BONDS WHILE EXEMPTING FROM TAX INTEREST EARNED ON ALL IN-STATE BONDS		
STATE	OUT OF STATE BOND TREATMENT	IN STATE BOND TREATMENT
Alabama	"Interest or other income on obligations of the United States, or its possessions, or interest or other income on bonds or other securities . . . received by any resident individual or by any corporation . . . shall be included in the gross income of such person or corporation in determining liability for income taxes due by such person or corporation." ALA. CODE § 40-18-4 (2003).	"Gross income does not include the following items which shall be exempt from income tax . . . Interest on obligations of the State of Alabama and any county, municipality, or other political subdivision thereof." ALA. CODE § 40-18-14(3)(f) (2003).
Arizona	"In computing Arizona adjusted gross income, the following amounts shall be added to Arizona gross income: . . . The amount of interest income received on obligations of any state, territory or possession of the United States, or any political subdivision thereof, located outside the state of Arizona, reduced, for tax years beginning from and after December 31, 1996, by the amount of any interest on indebtedness and other elated expenses that were incurred or continued to purchase or carry those obligations and that are not otherwise deducted or subtracted in arriving at Arizona gross income." ARIZ. REV. STAT. ANN. § 43-1021.3 (Supp. 2006).	
Arkansas	" 'Gross income' includes . . . Gains, profits, and income derived from interest, rent, royalties, dividends, annuities, securities, or the transaction of any business carried on for gain or profit" ARK. CODE ANN. § 26-51-404(a)(1)(D) (West 2007).	" 'Gross income' does not include the following items, which shall be exempt from taxation under this act: . . . Interest upon obligations of the United States or its possessions or upon obligations of the State of Arkansas or any political subdivision of the State of Arkansas" ARK. CODE ANN. § 26-51-404(b)(5) (1997).
California	Income which this state is prohibited from taxing includes interest on bonds issued by this state or a local government in this state, and the determination of whether a bond is issued by this state or a local government in this state shall be made without regard to (a) the source of payment of that bond or the security for that bond, public or private, and (b) whether or not public improvements are financed. If there is at any time following the original issuance of such a bond a separation in ownership between the bond and any	

	right to receive interest on the bond (whether or not evidenced by a coupon), payments or accruals on that stripped bond and stripped coupon shall be treated in a manner consistent with Section 1286(d) of the Internal Revenue Code. CAL. REV. & TAX. CODE § 17133 (West 2004).
Colorado	"There shall be added to the federal taxable income: . . . an amount equal to the interest income which is excluded from gross income for federal income tax purposes . . . less amortization of premium on obligations of any state or any political subdivision thereof, other than interest income on obligations of the state of Colorado or any political subdivision thereof . . . to the extent that such interest is specifically exempt from income taxation under the laws of the state of Colorado authorizing the issuance of such obligations." COLO. REV. STAT. § 39-22-104(3)(b) (2006).
Connecticut	"There shall be added thereto (i) to the extent not properly includable in gross income for federal income tax purposes, any interest income from obligations issued by or on behalf of any state, political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity, exclusive of such income from obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut and exclusive of any such income with respect to which taxation by any state is prohibited by federal law . . . (B) There shall be subtracted therefrom (vii) to the extent properly includable in determining the net gain or loss from the sale or other disposition of capital assets for federal income tax purposes, any gain from the sale or exchange of obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, in the income year such gain was recognized. . ." CONN. GEN. STAT. ANN. § 12-701(a)(20)(A)(i), (B)(vii) (West Supp. 2007).
Delaware	"There shall be added to federal adjusted gross income: (1) a. Interest qualifying under § 103 of the United States Internal Revenue Code of 1986 or any similar statute, other than interest on obligations and securities of this State and its political subdivisions and authorities; and b. Dividends paid by a regulated investment company (sometimes referred to as a mutual fund) qualifying under § 852(b)(5) of the United States Internal Revenue Code of 1986 or any similar statute; provided, that dividends attributable to interest on obligations and securities of this State and its political subdivisions and authorities may be excluded from such addition if the amount of interest attributable thereto is reported in writing to the holder or owner of the shares or units of the regulated investment company by or on behalf of the manager of the regulated investment company, and such report states the dollar amount or percentage of Delaware and non-Delaware dividends pertaining to the taxpayer." DEL. CODE ANN. tit. 30. 11, § 1106(a)(1) (1997). All bonds of the City of Wilmington are exempt from taxation under any law of this State. DEL. CODE ANN. tit. 30. 11, § 103 (2007).

District of Columbia	"Interest upon the obligations of a state, territory of the United States or any political subdivision thereof, but not including the District of Columbia, shall be included in the computation of District gross income; except, that individuals, estates and trusts shall not include interest on the obligations of the District of Columbia, a state, a territory of the United States, or any political subdivision thereof, in the computation of District gross income." D.C. CODE § 47-1083.02(a)(1) (2007).	
Georgia	"There shall be added to the taxable income: . . . Dividend or interest income, to the extent that the dividend or interest income is not included in gross income for federal income tax purposes, on obligations of any state except this state or of political subdivisions except political subdivisions of this state" GA. CODE. ANN. § 48-7-27(b)(1)(A) (2005).	
Idaho	"Add interest and dividends received or accrued during the taxable year from foreign securities and from securities issued by states and other political subdivisions exempt from federal income tax under the Internal Revenue Code, less applicable amortization." IDAHO CODE ANN. § 63-3022M(1) (2007).	"Subtract interest and dividends received or accrued during the taxable year from securities issued: . . . By the state of Idaho, its cities and political subdivisions, exempt from federal income tax under the Internal Revenue Code." IDAHO CODE ANN. § 63-3022M(3)(b) (2007).
Kansas	"There shall be added to federal adjusted gross income: Interest income less any related expenses directly incurred in the purchase of state or political subdivision obligations, to the extent that the same is not included in federal adjusted gross income, on obligations of any state or political subdivision thereof, but to the extent that interest income on obligations of this state or a political subdivision thereof issued prior to January 1, 1988, is specifically exempt from income tax under the laws of this state authorizing the issuance of such obligations, it shall be excluded from computation of Kansas adjusted gross income whether or not included in federal adjusted gross income. Interest income on obligations of this state or a political subdivision thereof issued after December 31, 1987, shall be excluded from computation of Kansas adjusted gross income whether or not included in federal adjusted gross income." KAN. STAT. ANN. §79-32,117(b)(1) (2007) (updated by 2007 KAN. Laws Ch. 195, relevant section not affected).	
Kentucky	"Include interest income derived from obligations of sister states and political subdivisions thereof" KY. REV. STAT. ANN. § 141.010(10)(c) (West Supp. 2006).	
Louisiana	"Tax Table Income", for resident individuals, means adjusted gross income plus interest on obligations of a state or political subdivision thereof, other than Louisiana and its municipalities, title to which obligations vested with the resident	"The amount of interest received upon obligations of the State of Louisiana, or any political or municipal subdivision thereof, to such extent as is now exempt by law shall not be included in gross income."

	individual on or subsequent to January 1, 1980. . ." allowable. (b) Interest on obligations of the state of Louisiana, its political subdivisions, public corporations created by them and constituted authorities thereof authorized to issue obligations on their behalf, title to which obligations vested with a resident individual shall be excluded from "tax table income" and is hereby declared exempt from state income taxation. LA. REV. STAT. ANN. § 47:293(6)(a), (b) (Supp. 2007).	Income" LA. REV. STAT. ANN. § 47:48 (2001).
Maine	"Federal adjusted gross income shall be increased by: . . . Interest or dividends on obligations or securities of any state other than this State, or of a political subdivision or authority of any state other than this State, to the extent that interest or those dividends are not included in the recipient's federal adjusted gross income." ME. REV. STAT. ANN. tit. 36. 805, § 5122(1)(A) (2007).	
Maryland	"To the extent excluded from federal adjusted gross income, the amounts under this section are added to the federal adjusted gross income of a resident to determine Maryland adjusted gross income. . . Dividends and interest from another state or local obligations. The addition under subsection (a) of this section includes interest or dividends, less related expenses, attributable to an obligation or security of: (1) another state; or (2) a political subdivision or authority of another state." MD. CODE ANN. TAX-GEN. §§ 10-204(b) (West 2007).	"In this section, 'tax preference items' mean the items that: . . . are further modified by excluding: . . . interest described in § 57(a)(5) of the Internal Revenue Code, if the interest is attributable to obligations of: 1. the State of Maryland; 2. a political subdivision or authority of the State; or 3. any other entity authorized under Maryland law to issue obligations the interest on which is excluded from gross income under § 103 of the Internal Revenue Code." MD. CODE ANN. § 10-222(a)(4)(ii) (West 2007).
Massachusetts	" Massachusetts gross income shall mean the federal gross income, modified as required by section six F, with the following further modifications:--(1) The items to be added thereto are:--(A) Interest on governmental obligations excluded under section one hundred and three of the Code, other than interest from any such obligation issued by the commonwealth, any political subdivision thereof, or any agency or instrumentality of either of the foregoing, which is exempt from taxation under any provision of law. MASS. GEN. LAWS ANN. CH. 62, § 2(a)(1)(A) (West Supp. 2007).	

Michigan	"Add gross interest income and dividends derived from obligations or securities of states other than Michigan, in the same amount that has been excluded from adjusted gross income less related expenses not deducted in computing adjusted gross income because of section 265(a)(1) of the internal revenue code." MICH. COMP. LAWS. ANN. § 206.30(1)(a) (West 2007).	
Minnesota	"For individuals, estates, and trusts, there shall be added to federal taxable income: interest income on obligations of any state other than Minnesota or a political or governmental subdivision, municipality, or governmental agency or instrumentality of any state other than Minnesota exempt from federal income taxes under the Internal Revenue Code or any other federal statute; and exempt-interest." MINN. STAT. ANN. § 290.01(19a)(1)(I)(i)(ii) (West 2007).	
Missouri	"There shall be added to the taxpayer's federal adjusted gross income: . . . Interest on certain governmental obligations excluded from federal gross income by Section 103 of the Internal Revenue Code. The previous sentence shall not apply to interest on obligations of the State of Missouri or any of its political subdivisions or authorities and shall not apply to interest described in subdivision (a) of subsection 3 of this section. The amount added pursuant to this paragraph shall be reduced by the amounts applicable to such interest that would have been deductible in computing the taxable income of the taxpayer except only for the application of Section 265 of the Internal Revenue Code." MO. ANN. STAT. § 143.121(2)(b) (West 2007).	
Montana	"Adjusted gross income is the taxpayer's federal adjusted income as defined in section 62 of the Internal Revenue Cod, 26 U.S.C. 62, and in addition includes the following: Interest received on obligations of another state or territory or county, municipality, district, or other political subdivision of another state, except to the extent that the interest is exempt from taxation by Montana under federal law." MONT. CODE ANN. § 15-13-111(1)(a)(i) (2005).	"Notwithstanding the provisions of the Internal Revenue Code, adjusted gross income does not include the following, which are exempt from taxation under this chapter: all interest income from obligations of the United States government, the state of Montana, or a county, municipality, district, or other political subdivision of the state and any other interest income that is exempt from taxation by Montana under federal law." MONT. CODE ANN. § 15-13-111(2)(a)(i) (2005).
Nebraska	"The following adjustments to federal adjusted gross income or, for corporations and fiduciaries, federal taxable income shall be made for interest or dividends received: . . . There shall be added interest or dividends received by the owner of obligations of the District of Columbia, other states of the United States, or their political subdivisions, authorities, commissions, or instrumentalities to the extent excluded in the computation of gross income for federal income tax purposes except that such interest or dividends shall not be added if received by a corporation which is a regulated investment company" Nebraska Legislative Bill 338 of 2007 First Regular Session updating NEB. REV. STAT. § 77-2716(1)(a) (2007).	

New Hampshire	"Income of the following described class is taxable: Interest from bonds, notes, money at interest, and from all debts due the person to be taxed except interest from notes or bonds of this state and notes or bonds of any political subdivision of this state." N.H. REV. STAT. ANN. § 77:4(I) (Supp. 2006).	
New Jersey	"Gross income shall not include interest on obligations (1) issued by or on behalf of this State or any county, municipality, school or other district, agency, authority, commission, instrumentality, public corporation (including one created or existing pursuant to agreement or compact with this or any other state), body corporate and politic or political subdivision of this State, or (2) those obligations which are statutorily free from State or local taxation under any other act of this State or under the laws of the United States." N.J. STAT. ANN. § 54:8A-6-14(West 2002).	
New Mexico	"Base income also includes interest received on a state or local bond." N.M STAT. ANN. § 7-2-2(B)(3) (2005).	"'State or local bond' means a bond issued by a state other than New Mexico's political subdivisions, the interest from which is excluded from income for federal income tax purposes under Section 103 of the Internal Revenue code, as that section may be amended or renumbered." N.M STAT. ANN. § 7-2-2(V) (2005).
New York	"There shall be added to federal adjusted gross income: Interest income on obligations of any state other than this state, or of a political subdivision of any such other state unless created by compact or agreement to which this state is a party, to the extent not properly includible in federal adjusted gross income" N.Y. LAW § 612(b)(1) (McKinney Supp. 2006).	
North Carolina	"The following additions to taxable income shall be made in calculating North Carolina taxable income, to the extent each item is not included in taxable income: Interest upon the obligations of states other than this State, political subdivisions of those states, and agencies of those states and their political subdivisions." N.C. GEN. STAT. ANN. § 105-134.6(c)(1) (2007).	"The following deductions from taxable income shall be made in calculating North Carolina taxable income, to the extent each item is included in taxable income: Interest upon the obligations of any of the following: . . . This State, a political subdivision of this State, or a commission, an authority, or another agency of this State or of a political subdivision of this State." N.C. GEN. STAT. ANN. § 105-134.6(b)(1)(b) (2007).
North Dakota	"The taxable income of an individual, estate, or trust as computed pursuant to the provisions of the United States Internal Revenue Code of 1954, as amended, shall be: . . . Increased by the amount of any interest and dividends from foreign securities and from securities of state and their political subdivisions exempt from federal income tax; provided, that interest upon obligations of the state of North Dakota or any of its political subdivisions shall not be included." N.D. CENT. CODE § 57-38-01.2(1)(g) (2005).	

Ohio	"'Adjusted gross income' or 'Ohio adjusted gross income' means federal adjusted gross income, as defined and used in the Internal Revenue Code, adjusted as provided in this section: Add interest or dividends on obligations or securities of any state or of any political subdivision or authority of any state, other than this state and its subdivisions and authorities." OHIO REV. CODE ANN. § 5747.01(A)(1) (2007).	
Oregon	"There shall be added to federal taxable income: Interest or dividends, exempt from federal income tax, on obligations or securities of any foreign state or of a political subdivision or authority of any foreign state. However, the amount added under this paragraph shall be reduced by any interest on indebtedness incurred to carry the obligations or securities described in this paragraph and by any expenses incurred in the production of interest or dividend income described in this paragraph." OR. REV. STAT. § 316.680(2)(a) (2005).	
Pennsylvania	"Every resident individual, estate or trust shall be subject to, and shall pay for the privilege of receiving each of the classes of income hereinafter enumerated in section 303, a tax upon each dollar of income received by that resident during that resident's taxable year at the rate of three and seven hundredths per cent. 72 PA. STAT. ANN. § 7302 (West Supp. 2007). "The classes of income referred to above are as follows: (6) Interest derived from obligations which are not statutorily free from State or local taxation under any other act of the General Assembly of the Commonwealth of Pennsylvania or under the laws of the United States, any amount paid under contract of life insurance or endowment or annuity contract which is includable in gross income for Federal income tax purposes and any amount paid out of the Archer Medical Savings Account (Archer MSA) or health savings account that is includable in the gross income of an account beneficiary for Federal income tax purposes." 72 PA. STAT. ANN. § 7303(a)(6) (West Supp. 2007).	"Except as provided in subsections (b) and (c), all obligations, interest on obligations and income from obligations issued on or after the effective date of this section by the Commonwealth, any public authority, commission, board or other agency created by the Commonwealth or any political subdivision of the Commonwealth or any public authority created by any political subdivision of the Commonwealth shall at all times be free from taxation for State and local purposes within the Commonwealth." 72 PA. STAT. ANN. § 9901(a) (West. Supp. 2007).

Rhode Island	" The Rhode Island income of a resident individual means his or her adjusted gross income for federal income tax purposes, with the modifications specified in this section...There shall be added to federal adjusted gross income: Interest income on obligations of any state, or its political subdivisions, other than Rhode Island or its political subdivisions." R.I. GEN. LAWS 1956, § 44-30-12(a), (b)(1) (Supp. 2006).	
South Carolina	"The exclusion from gross income authorized by Internal Revenue Code Section 103 (Interest on State and Local Bonds) is modified to exempt only interest on obligations of this State or any of its political subdivisions, and to exempt interest upon obligations of the United States. This modification applies to all Internal Revenue Code Sections referencing Section 103." S.C. CODE ANN. § 12-6-1120(1) (2000 & Supp. 2006).	
Tennessee	"An income tax in the amount of six percent (6%) per annum shall be levied and collected on incomes derived by way of dividends from stocks or by way of interest on bonds of each person, partnership, association, trust and corporation in the state of Tennessee who received, or to whom accrued, or to whom was credited during any year income from the sources enumerated in this section, except as otherwise provided in this chapter." TENN. CODE ANN. § 67-2-102 (e)(1) (Supp. 2006).	"Nothing contained in this chapter shall be construed or held to authorize the levy of an income tax on obligations of the United States, whether evidenced by bonds or otherwise and/or on shares of stock in corporations that are arms and agencies directly of the United States, insofar as such bonds and stocks are exempt from such taxation by the constitution or laws of the United States; or on the income derived from bonds of the State of Tennessee, or any county or municipality or other political subdivision of the state of Tennessee not subject to ad valorem taxation." TENN. CODE ANN. § 67-2-104(e)(1) (Supp. 2006).
Vermont	" 'Vermont net income' means, for any taxable year and for any corporate taxpayer: . . . (i) increased by: . . . (II) to the extent such income is exempted from taxation under the laws of the United States by the amount received by the tax payer on and after January 1, 1986 as interest income from state and local obligations, other than obligations of Vermont and its political subdivisions, and any dividends or other distributions from any fund to the extent such dividend or distribution is attributable to such Vermont state or local obligations." 32 VT. STAT. ANN. tit. 32, § 5811(18)(A)(i)(II) (2007).	
Virginia	"To the extent excluded from federal adjusted gross income, there shall be added:1. Interest, less related expenses to the extent not deducted in determining federal income, on obligations of any state other than Virginia, or of a political subdivision of any such other state unless created	"To the extent included in federal adjusted gross income, there shall be subtracted: . . . 2. Income derived from obligations, or on the sale or exchange of obligations of this Commonwealth or of any political subdivision or instrumentality of the Commonwealth." Chapter 359 of the

	by compact or agreement to which Virginia is a party" VA. CODE ANN. § 58.1 - 322(B)(1) (Supp. 2007).	2007 Session amending and reenacting VA. CODE ANN. § 58.1 - 322(C)(2) (Supp. 2007).
West Virginia	"There shall be added to federal adjusted gross income unless already included therein the following items: Interest obligations of any state other than this state or of a political subdivision of any other state unless created by compact or agreement to which this state is a party" W. VA. CODE ANN. § 11-21-12 (b)(1) (2007).	"There shall be subtracted from federal adjusted gross income to the extent included therein: . . . (2) Interest or dividend income on obligations or securities of any authority, commission or instrumentality of the United States or of the State of West Virginia to the extent includable in gross income for federal income tax purposes but exempt from state income taxes under the laws of the United States or of the State of West Virginia, including federal interest or dividends paid to shareholders of a regulated investment company, under Section 852 of the Internal Revenue Code for taxable years ending after the thirtieth day of June, one thousand nine hundred eighty-seven." W. VA. CODE ANN. § 11-21-12 (c)(2) (2007).

STATES THAT IMPOSE TAX ON INTEREST EARNED ON OUT-OF-STATE BONDS WHILE EXEMPTING FROM TAX INTEREST EARNED ONLY ON SOME IN-STATE BONDS		
STATE	OUT OF STATE BOND TREATMENT	IN-STATE BOND TREATMENT
Hawaii	"(b) There shall be included in gross income, adjusted gross income, and taxable income: . . . (2) unless expressly exempted or excluded as provided by subsection (a)(6), interest on the obligations of a State or a political subdivision thereof." HAW. REV. STAT. ANN. § 235-7 (2007).	The following excerpt is in place for County and State General Obligation Bonds, and County and State Revenue Bonds with only the name of the type of bond changed: " . . . bonds issued under this chapter, to the extent practicable, shall be issued so as to comply with requirements imposed by valid federal law providing that the interest on the bonds shall be excluded from gross income for federal income [tax] purposes (except as certain minimum taxes or environmental taxes may apply). The director of finance is authorized to enter into such agreements, establish such funds or accounts and take any action as required in order to comply with such valid federal law. Nothing in this chapter shall be deemed to prohibit the issuance of revenue bonds, the interest on which may be included in gross income for federal income tax purposes. For the purpose of ensuring that interest on revenue bonds issued pursuant to this chapter which is excluded from gross income for federal income tax purposes (except as provided above) on the date of issuance shall continue to be so excluded, no county officer or employee or user of an undertaking or loan program shall authorize or allow any change, amendment, or modification to an undertaking or loan program financed or refinanced with the proceeds of revenue bonds which change, amendment or modification would affect the exclusion of interest on the revenue bonds from gross income for

		federal income tax purposes unless the change, amendment, or modification shall have received the prior approval of the director of finance. Failure to receive the approval of the director of finance shall render any change, amendment, or modification void. HAW. REV. STAT. ANN. § 49-15 (2007). "To the extent practicable, special purpose revenue bonds issued pursuant to this part shall be issued to comply with requirements imposed by applicable federal law providing that the interest on the special purpose revenue bonds shall be excluded from gross income for federal income tax purposes, except as certain minimum taxes or environmental taxes may apply. The director of finance may enter into agreements, establish funds or accounts, and take any action required to comply with applicable federal law. Nothing in this part shall be deemed to prohibit the issuance of special purpose revenue bonds, the interest on which may be included in gross income for federal income tax purposes. HAW. REV. STAT. ANN. § 39A-325 (2007).
Illinois	"In the case of an individual, base income means an amount equal to the taxpayer's adjusted gross income for the taxable year as modified by paragraph 2. The adjusted gross income . . . shall be modified by adding thereto to sum of the following amounts . . . An amount equal to all amounts paid or accrued to the taxpayer as interest or dividends during the taxable year to the extent excluded from gross income in the computation of	Obligations from the following Illinois institutions are exempt from income tax: Illinois Housing Development Authority Does not include housing-related commercial facilities notes and bonds. Export Development Act of 1983

	adjusted gross income, except stock dividends of qualified public utilities described in Section 305(e) of the Internal Revenue Code" 35 ILL. COMP. STAT ANN. 5/203 (West 2007).	Illinois Development Finance Authority Act Includes only bonds and notes issued pursuant to Sections 7.50 - 7.61, specifically, venture fund and infrastructure bonds. Quad Cities Regional Economic Development Authority Includes only bonds and notes that the Authority has declared to be exempt. College Savings Bonds Includes only bonds and notes issued under the General Obligation Bond Act in accordance with the Baccalaureate Savings Act. Illinois Sports Facilities Authority Higher Education Student Assistance Act Includes only bonds and notes issued on or after September 2, 1988. Illinois Development Finance Authority Includes only bonds and notes issued in accordance with the Asbestos Abatement Finance Act. Rural Bond Bank Act Illinois Development Finance Authority Act Includes only bonds and notes issued pursuant to Sections 7.80 - 7.87. Quad Cities Interstate Metropolitan Authority Includes only bonds and notes issued under the Quad Cities Interstate Metropolitan Authority Act. Southwestern Illinois Development Authority

		Includes only bonds and notes issued pursuant to the Southwestern Illinois Development Authority Act. Illinois Finance Authority Includes only bonds and notes issued under the Illinois Finance Authority Act and the Asbestos Abatement Finance Act. Brian Hamer, INCOME EXEMPT FROM TAXATION, 101 Illinois Department of Revenue Publication 1, 4-5 (December 2006).
Iowa	"The term "net income" means the adjusted gross income before the net operating loss deduction as properly computed for federal income tax purposes under the Internal Revenue Code, with the following adjustments: 2. Add interest and dividends from foreign securities of stat and other political subdivisions exempt from federal income tax under the Internal Revenue Code." IOWA CODE ANN. § 422.7(2) (West 2007).	"The term "net income" means the adjusted gross income before the net operating loss deduction as properly computed for federal income tax purposes under the Internal Revenue Code, with the following adjustments: 36. Add, to the extent not already included, income from the sale of obligations of the state and its political subdivisions. Income from the sale of these obligations is exempt from the taxes imposed by this division only if the law authorizing these obligations specifically exempts the income from the sale from the state individual income tax." IOWA CODE ANN. § 422.7(36) (West 2007).
Mississippi	"For the purposes of this article, except as otherwise provided, the term "gross income" means and includes the income of a taxpayer derived from salaries, wages, fees or compensation for service, of whatever kind and in whatever form paid, including income from governmental agencies and subdivisions thereof; or from professions, vocations, trades, businesses, commerce or sales, or renting or dealing in property, or reacquired property; also from annuities, interest, rents, dividends,	"The words 'gross income' do not include the following items of income which shall be exempt from taxation under this article: . . . Interest upon the obligations of the United States or its possessions, or securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916, or bonds issued by the War Finance Corporation, or obligations of the State of Mississippi or political subdivisions thereof." MISS. CODE ANN. § 27-7-15(4)(d) (West 2007).

	securities, insurance premiums, reinsurance premiums, considerations for supplemental insurance contracts, or the transaction of any business carried on for gain or profit, or gains, or profits, and income derived from any source whatever and in whatever form paid. The amount of all such items of income shall be included in the gross income for the taxable year in which received by the taxpayer. The amount by which an eligible employee's salary is reduced pursuant to a salary reduction agreement authorized under Section 25-17-5 shall be excluded from the term "gross income" within the meaning of this article." MISS. CODE ANN. § 27-7-15(1) (West 2007).	
Oklahoma	"The taxable income of any taxpayer shall be adjusted to arrive at Oklahoma taxable income for corporations and Oklahoma adjusted gross income for individuals, as follows: 1. There shall be added interest income on obligations of any state or political subdivision thereto which is not otherwise exempted pursuant to other laws of this state, to the extent that such interest is not included in taxable income and adjusted gross income." OKLA. STAT. ANN. Revenue and Taxation,68 § 2358 (2007).	"All bonds, notes, debentures, evidences of indebtedness, lease purchase agreements, certificates of participation, commercial paper, or other obligations issued by the State of Oklahoma, the Oklahoma Capitol Improvement Authority, the Oklahoma Municipal Power Authority, the Oklahoma Student Loan Authority, and the Oklahoma Transportation Authority, the income therefrom, including, without limitation, any profit made on the sale thereof, and the transfer thereof, including, without limitation, estate or inheritance taxes, shall at all times be free from taxation within this state." OKLA. STAT. ANN. Revenue and Taxation, 68 § 2358.5A(A)(2007). "Interest on local governmental obligations issued after the effective date of this act for purpose other than to provide financing for projects for

		nonprofit corporations shall be exempt from Oklahoma income taxation. For these purposed local governmental obligations shall include bonds or notes issued by, or on behalf of, or for the benefit of Oklahoma educational institutions, cities, towns, or counties or by public trusts of which any of the foregoing is a beneficiary." OKLA. STAT. ANN. Revenue and Taxation, 68 § 2358.5(A) (2007). "Interest on governmental obligations issued by the Oklahoma Department of Transportation after the effective date of this act for purposes of highway construction and maintenance shall be exempt from Oklahoma income taxation." OKLA. STAT. ANN. Revenue and Taxation, 68 § 2358.5(B) (2007).
Wisconsin	"To federal adjusted gross income add: 1. The amount of any interest, except interest under par. (b)1, less related expenses, which is not included in federal adjusted gross income, and except the amount of any interest or original issue discount derived from bonds issued under subch. IV of ch. 18." WIS. STAT. ANN. § 71.05(6)(a)(1) (2007).	"There shall be exempt from taxation under this subchapter the following: . . . (c) Certain Interest income. Interest received on bonds or notes issued by any of the following: 1. The Wisconsin Housing and Economic Development Authority under s. 234.65, if the bonds are used to fund an economic development loan to finance construction, renovation, or development of property that would be exempt under s. 70.11(36). 1m. The Wisconsin Housing and Economic Development Authority under s. 234.08 or 234.61, on or after January 1, 2004, if the bonds or notes are issued to fund multifamily affordable housing projects or elderly housing projects. 3. A local exposition district created under subch. II of ch. 229. 4. A local professional baseball park district created under subch. III of ch. 229.

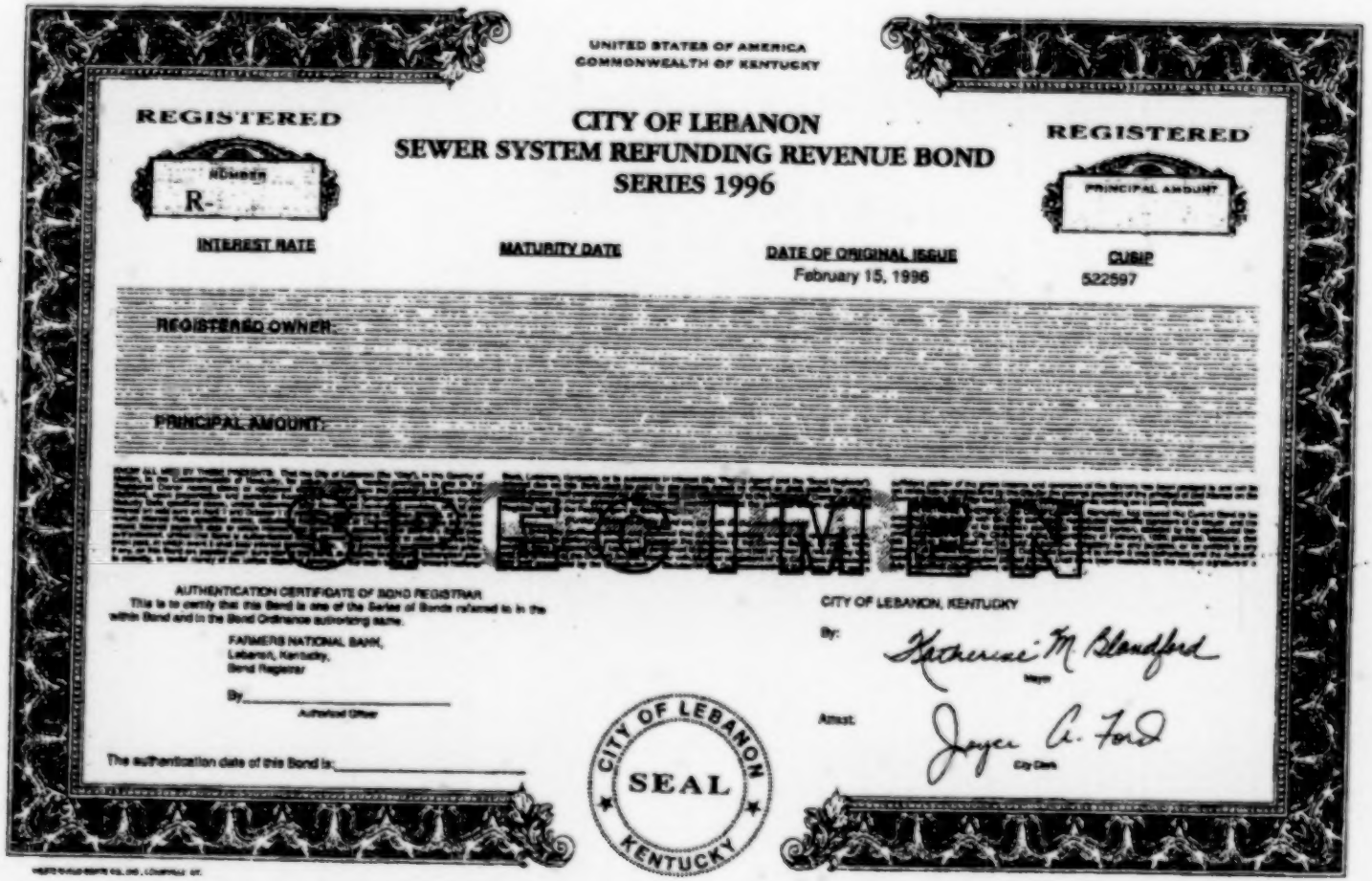
		5. A local professional football stadium district created under subch. IV of ch. 229. 6. A local cultural arts district created under subch. V of ch. 229. 7. The Wisconsin Aerospace Authority." WIS. STAT. ANN. § 71.05(1)(c) (2007).

UTAH EXEMPTS OUT OF STATE BONDS ONLY IF STATE IN QUESTION EXEMPTS UTAH BONDS.		
STATE	TAXATION OF OUT OF STATE BONDS	EXEMPTION OF OUT OF STATE BONDS
Utah	"There shall be added to federal taxable income of a resident or nonresident individual: . . . except as provided in Subsection (6), for taxable years beginning on or after January 1, 2003, for bonds, notes, and other evidences of indebtedness acquired on or after January 1, 2003, the interest from bonds, notes, and other evidences of indebtedness issued by one or more of the following entities: (i) a state other than this state; (ii) the District of Columbia; (iii) a political subdivision of a state other than this state; or (iv) an agency or instrumentality of an entity described in Subsections (1)(g)(i) through (iii). UTAH CODE ANN. § 59-10-114(1)(g) (2007).	" Notwithstanding Subsection (1)(g), interest from bonds, notes, and other evidences of indebtedness issued by an entity described in Subsections (1)(g)(i) through (iv) may not be added to federal taxable income of a resident or nonresident individual if, as annually determined by the commission: (a) for an entity described in Subsection (1)(g)(i) or (ii), the entity and all of the political subdivisions, agencies, or instrumentalities of the entity do not impose a tax based on income on any part of the bonds, notes, and other evidences of indebtedness of this state; or (b) for an entity described in Subsection (1)(g)(iii) or (iv), the following do not impose a tax based on income on any part of the bonds, notes, and other evidences of indebtedness of this state: (i) the entity; or (ii)(A) the state in which the entity is located; or (B) the District of Columbia, if the entity is located within the District of Columbia. UTAH CODE ANN. § 59-10-114(6) (2007).

STATES THAT IMPOSE NO INCOME TAX
Alaska
Florida
Nevada
South Dakota
Texas
Washington
Wyoming

ONLY NONDISCRIMINATORY TAX STATUTE
Indiana

BEST AVAILABLE COPY



UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY

REGISTERED

No.
R-

CITY OF LEBANON
SEWER SYSTEM REFUNDING REVENUE BOND
SERIES 1996

REGISTERED

PRINCIPAL AMOUNT

INTEREST RATE | MATURITY DATE | DATE OF ORIGINAL ISSUE | CUSIP

February 15, 1996 | 522597

REGISTERED OWNER:

PRINCIPAL AMOUNT:

SPECIMEN

AUTHENTICATION CERTIFICATE OF BOND REGISTRAR

This is to certify that this Bond is one of the Series of Bonds referred to in the within Bond and in the Bond Ordinance authorizing same.

FARMERS NATIONAL BANK,
Lebanon, Kentucky,
Bond Registrar

By: _____
Authorized Officer

The authentication date of this Bond is: _____

CITY OF LEBANON, KENTUCKY

By: Katherine M. Blandford
Mayor

Attest: Joyce A. Ford
City Clerk

CITY OF LEBANON
SEAL
KENTUCKY

RSA-18a

UNITED STATES OF AMERICA
STATE OF ALABAMA

REGISTERED

REGISTERED

CITY OF BIRMINGHAM
GENERAL OBLIGATION CAPITAL IMPROVEMENT BOND
Series 1990-A

INTEREST RATE

MATURITY DATE

CUSIP

Subject to prior payment and other provisions as herein provided

The CITY OF BIRMINGHAM, a municipal corporation in the State of Alabama (herein called the "City"), will pay to

SPECIMEN

or registered assigns, the principal sum of

DOLLARS

on the date specified above with interest thereon from the date hereof until the maturity hereof at the per annum rate of interest specified above (computed on the basis of a 360-day year of twelve consecutive 30-day months), payable on October 1, 1990, and semiannually on each April 1 and October 1 thereafter until and at the maturity hereof. The principal hereof as well as any premium hereon shall be payable in lawful money of the United States of America at the principal office of First Alabama Bank, Birmingham, Alabama, as paying agent (herein called the "Bank"), and the interest hereon shall be paid by check or draft mailed to the then registered holder hereof at the address of the said holder as it appears on the registry books of the Bank pertaining to the Bonds hereinafter referred to, notwithstanding the foregoing, the holder of any such Bond in a principal amount of not less than $100,000 may by written instructions delivered to the Bank request that payments of principal of or interest on such Bond be made by wire transfer in immediately available funds to a bank within the continental United States or by any similar method providing for payment in immediately available funds at the place of payment provided for herein, and such holder shall pay all of the expenses and charges related to the [illegible] by the City or the Bank to the person in whose name this bond is registered at the close of business on the fifteenth day of the month next preceding the interest payment date, whether or not such day is a business day, and shall cease to be payable to such person upon the transfer of ownership of this bond unless the City defaults in the payment of interest due on such interest payment date, in which event such interest shall be payable to the person in whose name this bond is registered at the close of business on the date fixed by the City for the payment of such defaulted interest. Any installment of this bond called for redemption and not paid when due shall continue to bear interest at the rate specified above until the principal hereof and the interest hereon shall be paid in full.

This bond is one of a duly authorized series of [illegible] aggregating $40,000,000 [illegible] dollars, which series constitutes one of seven separate series of bonds [illegible] Bonds").

REGISTERED

REGISTRATION CERTIFICATE

Date of Registration:

This bond was registered in the name of the above-registered owner on the registration date set forth above.

FIRST ALABAMA BANK,
as Paying Agent

By SPECIMEN
Its Authorized Officer

The Bonds are authorized to be issued pursuant to the applicable provisions of the constitution and laws of Alabama, including particularly Chapter 81 of Title 11 of the Code of Alabama 1975, as amended, a special municipal bond election held in the City on October 16, 1990, and an ordinance (herein called the "Bond Ordinance") duly adopted by the governing body of the City, for purposes for which the City is authorized by law to borrow money and to issue bonds.

REFERENCE IS MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF.

[illegible] to the validity hereof.

IN WITNESS WHEREOF, the City has caused this bond to be executed by the [illegible] with the facsimile signatures of its Mayor and its Director of Finance, a facsimile of its corporate seal to be affixed hereto, and has caused the said seal and signatures to be attested by a facsimile of the signature of the City Clerk, all [illegible] this bond to be dated April 1, 1990.

CITY OF BIRMINGHAM, ALABAMA

By: Richard Arrington, Jr.
Mayor

By: SPECIMEN
Director of Finance

Attest: SPECIMEN
City Clerk

Official Seal
Birmingham, Alabama

© SOUTHERN BANKNOTE CO. INC. - BIRMINGHAM, ALABAMA

RSA-19a

Book-Entry Only

Ratings: See "Ratings" herein

NEW ISSUE

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds (including original issue discount treated as interest) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating alternative minimum taxable income. Bond Counsel also is of the opinion that, under existing laws of the Commonwealth of Kentucky, interest on the Bonds is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Bonds are exempt from ad valorem taxes by the Commonwealth of Kentucky and all political subdivisions thereof. See "Tax Exemption" herein.

$145,290,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 79

Dated: Date of delivery

Due: October 1, as shown below

The Revenue Bonds, Project No. 79 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof and will bear interest payable on each April 1 and October 1, commencing on April 1, 2004. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by J.P. Morgan Trust Company, National Association, Louisville, Kentucky as Trustee and Paying Agent.

Certain of the Bonds are subject to redemption prior to maturity at the times and in the amounts described herein.

The Bonds mature on the dates, in the principal amounts, bear interest at the rates per annum and have the prices or yields as follows:

Maturity	Principal Amount	Interest Rate	Price/ Yield	Maturity	Principal Amount	Interest Rate	Price/ Yield
October 1, 2016	$4,410,000	4.100%	100%	October 1, 2020	$220,000	4.450%	4.50%
October 1, 2016	11,865,000	5.125%	4.10%	October 1, 2020	20,325,000	5.000%	4.50%
October 1, 2017	1,335,000	4.200%	100%	October 1, 2021	200,000	4.550%	4.60%
October 1, 2017	16,320,000	5.125%	4.20%	October 1, 2021	21,395,000	5.000%	4.60%
October 1, 2018	2,085,000	4.250%	4.29%	October 1, 2022	2,045,000	4.625%	4.67%
October 1, 2018	16,480,000	5.125%	4.29%	October 1, 2022	20,655,000	5.000%	4.67%
October 1, 2019	550,000	4.375%	4.38%	October 1, 2023	8,425,000	4.750%	4.79%
October 1, 2019	18,980,000	5.125%	4.38%				

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to a Resolution adopted August 18, 2003 to (i) pay costs of constructing, acquiring, installing and equipping the Project (as described and defined herein) and (ii) pay costs of issuing the Bonds.

The scheduled payment of principal of and interest on the Bonds, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation.

MBIA

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALLY RENEWABLE LEASE AND CERTAIN SUBLEASES (EACH AS DESCRIBED AND DEFINED HEREIN), THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM. See "SECURITY FOR THE BONDS" herein.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. It is expected that delivery of the Bonds will be made on or about October 9, 2003, in New York, New York, through the facilities of DTC, against payment therefor.

UBS Financial Services Inc.

Morgan Stanley — **Citigroup**

J.J.B. Hilliard, W.L. Lyons, Inc. — **Morgan Keegan & Company, Inc.** — **A.G. Edwards & Sons, Inc.**

Ross, Sinclaire & Associates, Inc. — **First Kentucky Securities Corporation** — **Banc One Capital Markets, Inc.**

Edward D. Jones & Co., L.P. — **Merrill Lynch & Co.** — **NatCity Investments, Inc.**

Dated: September 24, 2003

OFFICIAL STATEMENT DATED NOVEMBER 14, 2006

NEW ISSUE
BOOK ENTRY

RATINGS: **Moody's: Aaa**
Standard & Poor's: AAA
Fitch: AAA

In the opinion of Kennedy & Graven, Chartered, bond counsel, according to present federal and Minnesota laws, regulations, rulings, and decisions, interest on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates, and trusts for Minnesota income tax purposes. Interest on the Bonds is subject to Minnesota franchise taxes imposed on corporations and financial institutions. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates, and trusts. Interest on the Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal and Minnesota alternative minimum taxes. See "TAX EXEMPTION AND COLLATERAL TAX MATTERS" herein.

$35,000,000
STATE OF MINNESOTA
911 Revenue Bonds
(Public Safety Radio Communications System Project)
Series 2006

Dated: November 1, 2006 Due: June 1, as shown below

Year	Amount	Interest Rate	Price or Yield	CUSIP 60412L
2008	$ 2,590,000	4.00%	3.53%	AA7
2009	$ 2,690,000	5.00	3.58	AB5
2010	$ 2,795,000	5.00	3.58	AC3
2011	$ 2,905,000	4.00	3.58	AD1
2012	$ 3,025,000	4.25	3.59	AE9
2013	$ 3,150,000	5.00	3.61	AF6
2014	$ 3,280,000	5.00	3.65	AG4
2015	$ 3,415,000	5.00	3.70	AH2
2016	$ 3,560,000	5.00	3.74	AJ8
2017	$ 3,715,000	5.00	3.78	AK5
2018	$ 3,875,000	5.00	3.82	AL3

THE 911 REVENUE BONDS (PUBLIC SAFETY RADIO COMMUNICATIONS SYSTEM PROJECT), SERIES 2006 (THE "BONDS") ARE BEING ISSUED UNDER AND PURSUANT TO LAWS OF MINNESOTA 2005, CHAPTER 136, ARTICLE 1, SECTION 9, SUBDIVISION 8, AND MINNESOTA STATUTES, SECTION 403.275, AND AN ORDER OF THE COMMISSIONER OF FINANCE DATED NOVEMBER 1, 2006 (THE "ORDER"), AND ARE SPECIAL, LIMITED OBLIGATIONS OF THE STATE PAYABLE SOLELY FROM AND SECURED BY APPROPRIATIONS FROM THE 911 EMERGENCY TELECOMMUNICATIONS SERVICE ACCOUNT PURSUANT TO MINNESOTA STATUTES, SECTION 403.30. THE PLEDGED REVENUES ARE DERIVED FROM FEES IMPOSED BY THE STATE ON EACH CUSTOMER OF A TELEPHONE SERVICE PROVIDER THAT FURNISHES SERVICE CAPABLE OF ORIGINATING A 911 EMERGENCY TELEPHONE CALL. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE STATE, AND ARE NOT SECURED BY A PLEDGE OF THE FULL FAITH AND CREDIT AND TAXING POWERS OF THE STATE.

The Bonds maturing on June 1, 2017, and June 1, 2018, will be subject to redemption and prepayment at the option of the State on December 1, 2016, and any date thereafter at a price of par plus accrued interest.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds.

MBIA

The Bonds will be available to purchasers in book entry form only, and initially will be registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. The Bank of New York Trust Company, N.A., in Dallas, Texas, will act as Bond Registrar and Paying Agent for the Bonds.

The Bonds are offered by the State subject to the legal opinions of Kennedy & Graven, Chartered, bond counsel, as to the validity of the Bonds and tax exemption. Delivery will be made on or about November 22, 2006. This cover page contains certain information for quick reference only. It is *not* a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

LEGISLATIVE GENERAL COUNSEL
₤ Approved for Filing: R.L. Rockwell ₤
₤ 06-20-01 9:20 AM ₤

H.B. 1006

INDIVIDUAL INCOME TAX - ADDITION OF INTEREST TO FEDERAL TAXABLE INCOME

2001 FIRST SPECIAL SESSION

STATE OF UTAH

Sponsor: Greg J. Curtis

This act modifies the Individual Income Tax Act to provide that for taxable years beginning on or after January 1, 2002, interest on certain bonds, notes, and other indebtedness of other states or the District of Columbia is subject to state individual income taxation. This act makes technical changes.

This act affects sections of Utah Code Annotated 1953 as follows:

AMENDS:

59-10-114, as last amended by Chapters 116 and 233, Laws of Utah 2001

Be it enacted by the Legislature of the state of Utah:

Section 1. Section **59-10-114** is amended to read:

59-10-114. Additions to and subtractions from federal taxable income of an individual.

(1) There shall be added to federal taxable income of a resident or nonresident individual:

(a) the amount of any income tax imposed by this or any predecessor Utah individual income tax law and the amount of any income tax imposed by the laws of another state, the District of Columbia, or a possession of the United States, to the extent deducted from federal adjusted gross income, as defined by Section 62, Internal Revenue Code, in determining federal taxable income;

(b) a lump sum distribution that the taxpayer does not include in adjusted gross income on the taxpayer's federal individual income tax return for the taxable year;

(c) for taxable years beginning on or after January 1, 2002, the amount of a child's income calculated under Subsection (5) that:

(i) a parent elects to report on the parent's federal individual income tax return for the

taxable year; and

(ii) the parent does not include in adjusted gross income on the parent's federal individual income tax return for the taxable year;

(d) 25% of the personal exemptions, as defined and calculated in the Internal Revenue Code;

(e) a withdrawal from a medical care savings account and any penalty imposed in the taxable year if:

(i) the taxpayer did not deduct or include the amounts on his federal tax return pursuant to Section 220, Internal Revenue Code; and

(ii) the withdrawal is subject to Subsections 31A-32a-105(1) and (2); [~~and~~]

(f) the amount refunded to a participant under Title 53B, Chapter 8a, Higher Education Savings Incentive Program, in the year in which the amount is refunded[~~.~~]; and

(g) except as provided in Subsection (6), for taxable years beginning on or after January 1, 2002, for bonds, notes, and other evidences of indebtedness acquired on or after January 1, 2002, the interest from bonds, notes, and other evidences of indebtedness issued by one or more of the following entities:

(i) a state other than this state;

(ii) the District of Columbia;

(iii) a political subdivision of a state other than this state; or

(iv) an agency or instrumentality of an entity described in Subsections (1)(g)(i) through (iii).

(2) There shall be subtracted from federal taxable income of a resident or nonresident individual:

(a) the interest or dividends on obligations or securities of the United States and its possessions or of any authority, commission, or instrumentality of the United States, to the extent includable in gross income for federal income tax purposes but exempt from state income taxes under the laws of the United States, but the amount subtracted under this Subsection (2)(a) shall be reduced by any interest on indebtedness incurred or continued to purchase or carry the obligations or securities described in this Subsection (2)(a), and by any expenses incurred in the production of interest or dividend income described in this Subsection (2)(a) to the extent that such expenses, including amortizable bond premiums, are deductible in determining federal taxable

income;

(b) 1/2 of the net amount of any income tax paid or payable to the United States after all allowable credits, as reported on the United States individual income tax return of the taxpayer for the same taxable year;

(c) the amount of adoption expenses which, for purposes of this Subsection (2)(c), means any actual medical and hospital expenses of the mother of the adopted child which are incident to the child's birth and any welfare agency, child placement service, legal, and other fees or costs relating to the adoption;

(d) amounts received by taxpayers under age 65 as retirement income which, for purposes of this section, means pensions and annuities, paid from an annuity contract purchased by an employer under a plan which meets the requirements of Section 404(a)(2), Internal Revenue Code, or purchased by an employee under a plan which meets the requirements of Section 408, Internal Revenue Code, or paid by the United States, a state, or political subdivision thereof, or the District of Columbia, to the employee involved or the surviving spouse;

(e) for each taxpayer age 65 or over before the close of the taxable year, a $7,500 personal retirement exemption;

(f) 75% of the amount of the personal exemption, as defined and calculated in the Internal Revenue Code, for each dependent child with a disability and adult with a disability who is claimed as a dependent on a taxpayer's return;

(g) any amount included in federal taxable income that was received pursuant to any federal law enacted in 1988 to provide reparation payments, as damages for human suffering, to United States citizens and resident aliens of Japanese ancestry who were interned during World War II;

(h) subject to the limitations of Subsection (3)(e), amounts a taxpayer pays during the taxable year for health care insurance, as defined in Title 31A, Chapter 1, General Provisions:

(i) for:

(A) the taxpayer;

(B) the taxpayer's spouse; and

(C) the taxpayer's dependents; and

(ii) to the extent the taxpayer does not deduct the amounts under Section 125, 162, or 213, Internal Revenue Code, in determining federal taxable income for the taxable year;

(i) (i) except as otherwise provided in this Subsection (2)(i), the amount of a contribution made [~~in~~] during the [~~tax~~] taxable year on behalf of the taxpayer to a medical care savings account and interest earned on a contribution to a medical care savings account established pursuant to Title 31A, Chapter 32a, Medical Care Savings Account Act, to the extent the contribution is accepted by the account administrator as provided in the Medical Care Savings Account Act, and if the taxpayer did not deduct or include amounts on [~~his~~] the taxpayer's federal individual income tax return pursuant to Section 220, Internal Revenue Code[~~.~~ ~~A~~]; and

(ii) contribution deductible under this Subsection (2)(i) may not exceed either of the following:

[~~(i)~~] (A) the maximum contribution allowed under the Medical Care Savings Account Act for the tax year multiplied by two for taxpayers who file a joint return, if neither spouse is covered by health care insurance as defined in Section 31A-1-301 or self-funded plan that covers the other spouse, and each spouse has a medical care savings account; or

[~~(ii)~~] (B) the maximum contribution allowed under the Medical Care Savings Account Act for the tax year for taxpayers:

[~~(A)~~] (I) who do not file a joint return; or

[~~(B)~~] (II) who file a joint return, but do not qualify under Subsection (2)(i)(i)(A); and

(j) the amount included in federal taxable income that was derived from money paid by the taxpayer to the program fund under Title 53B, Chapter 8a, Higher Education Savings Incentive Program, not to exceed amounts determined under Subsection 53B-8a-106(1)(d) and investment income earned on participation agreements under Subsection 53B-8a-106(1) when used for higher education costs of the beneficiary;

(k) for [~~tax~~] taxable years beginning on or after January 1, 2000, any amounts paid for premiums for long-term care insurance as defined in Section 31A-1-301 to the extent the amounts paid for long-term care insurance were not deducted under Section 213, Internal Revenue Code, in determining federal taxable income; and

(l) for taxable years beginning on or after January 1, 2000, if the conditions of Subsection (4)(a) are met, the amount of income derived by a Ute tribal member:

(i) during a time period that the Ute tribal member resides on homesteaded land diminished from the Uintah and Ouray Reservation; and

(ii) from a source within the Uintah and Ouray Reservation.

(3) (a) For purposes of Subsection (2)(d), the amount of retirement income subtracted for taxpayers under 65 shall be the lesser of the amount included in federal taxable income, or $4,800, except that:

(i) for married taxpayers filing joint returns, for each $1 of adjusted gross income earned over $32,000, the amount of the retirement income exemption that may be subtracted shall be reduced by 50 cents;

(ii) for married taxpayers filing separate returns, for each $1 of adjusted gross income earned over $16,000, the amount of the retirement income exemption that may be subtracted shall be reduced by 50 cents; and

(iii) for individual taxpayers, for each $1 of adjusted gross income earned over $25,000, the amount of the retirement income exemption that may be subtracted shall be reduced by 50 cents.

(b) For purposes of Subsection (2)(e), the amount of the personal retirement exemption shall be further reduced according to the following schedule:

(i) for married taxpayers filing joint returns, for each $1 of adjusted gross income earned over $32,000, the amount of the personal retirement exemption shall be reduced by 50 cents;

(ii) for married taxpayers filing separate returns, for each $1 of adjusted gross income earned over $16,000, the amount of the personal retirement exemption shall be reduced by 50 cents; and

(iii) for individual taxpayers, for each $1 of adjusted gross income earned over $25,000, the amount of the personal retirement exemption shall be reduced by 50 cents.

(c) For purposes of Subsections (3)(a) and (b), adjusted gross income shall be calculated by adding to federal adjusted gross income any interest income not otherwise included in federal adjusted gross income.

(d) For purposes of determining ownership of items of retirement income common law doctrine will be applied in all cases even though some items may have originated from service or investments in a community property state. Amounts received by the spouse of a living retiree because of the retiree's having been employed in a community property state are not deductible as retirement income of such spouse.

(e) For purposes of Subsection (2)(h), a subtraction for an amount paid for health care insurance as defined in Title 31A, Chapter 1, General Provisions, is not allowed:

(i) for an amount that is reimbursed or funded in whole or in part by the federal government, the state, or an agency or instrumentality of the federal government or the state; and

(ii) for a taxpayer who is eligible to participate in a health plan maintained and funded in whole or in part by the taxpayer's employer or the taxpayer's spouse's employer.

(4) (a) A subtraction for an amount described in Subsection (2)(l) is allowed only if:

(i) the taxpayer is a Ute tribal member; and

(ii) the governor and the Ute tribe execute and maintain an agreement meeting the requirements of this Subsection (4).

(b) The agreement described in Subsection (4)(a):

(i) may not:

(A) authorize the state to impose a tax in addition to a tax imposed under this chapter;

(B) provide a subtraction under this section greater than or different from the subtraction described in Subsection (2)(l); or

(C) affect the power of the state to establish rates of taxation; and

(ii) shall:

(A) provide for the implementation of the subtraction described in Subsection (2)(l);

(B) be in writing;

(C) be signed by:

(I) the governor; and

(II) the chair of the Business Committee of the Ute tribe;

(D) be conditioned on obtaining any approval required by federal law; and

(E) state the effective date of the agreement.

(c) (i) The governor shall report to the commission by no later than February 1 of each year regarding whether or not an agreement meeting the requirements of this Subsection (4) is in effect.

(ii) If an agreement meeting the requirements of this Subsection (4) is terminated, the subtraction permitted under Subsection (2)(l) is not allowed for taxable years beginning on or after the January 1 following the termination of the agreement.

(d) For purposes of Subsection (2)(l) and in accordance with Title 63, Chapter 46a, Utah Administrative Rulemaking Act, the commission may make rules:

(i) for determining whether income is derived from a source within the Uintah and Ouray Reservation; and

(ii) that are substantially similar to how federal adjusted gross income derived from Utah sources is determined under Section 59-10-117.

(5) (a) For purposes of this Subsection (5), "Form 8814" means:

(i) the federal individual income tax Form 8814, Parents' Election To Report Child's Interest and Dividends; or

(ii) (A) for taxable years beginning on or after January 1, 2002, a form designated by the commission in accordance with Subsection (5)(a)(ii)(B) as being substantially similar to 2000 Form 8814 if for purposes of federal individual income taxes the information contained on 2000 Form 8814 is reported on a form other than Form 8814; and

(B) for purposes of Subsection (5)(a)(ii)(A) and in accordance with Title 63, Chapter 46a, Utah Administrative Rulemaking Act, the commission may make rules designating a form as being substantially similar to 2000 Form 8814 if for purposes of federal individual income taxes the information contained on 2000 Form 8814 is reported on a form other than Form 8814.

(b) The amount of a child's income added to adjusted gross income under Subsection (1)(c) is equal to the difference between:

(i) the lesser of:

(A) the base amount specified on Form 8814; and

(B) the sum of the following reported on Form 8814:

(I) the child's taxable interest;

(II) the child's ordinary dividends; and

(III) the child's capital gain distributions; and

(ii) the amount not taxed that is specified on Form 8814.

(6) Notwithstanding Subsection (1)(g), interest from bonds, notes, and other evidences of indebtedness issued by an entity described in Subsections (1)(g)(i) through (iv) may not be added to federal taxable income of a resident or nonresident individual if, as annually determined by the commission:

(a) for an entity described in Subsection (1)(g)(i) or (ii), the entity and all of the political subdivisions, agencies, or instrumentalities of the entity do not impose a tax based on income on any part of the bonds, notes, and other evidences of indebtedness of this state; or

(b) for an entity described in Subsection (1)(g)(iii) or (iv), the following do not impose a tax based on income on any part of the bonds, notes, and other evidences of indebtedness of this

state:

(i) the entity; or

(ii) (A) the state in which the entity is located; or

(B) the District of Columbia, if the entity is located within the District of Columbia.

Legislative Review Note
as of 6-20-01 8:58 AM

For purposes of the individual income tax, this legislation taxes interest from certain state and local bonds, notes, or other debts ("interest on debts") that are issued out of state while not taxing interest on debts issued in Utah. This differential taxation of interest on debts might be challenged as discriminatory under the Commerce Clause of the Constitution of the United States ("Commerce Clause"). Legal arguments exist in favor of and against the constitutionality of this legislation. However, a limited legal review of this issue has found that a significant majority of states tax interest on out of state debts, and that at least one court, the Ohio Court of Appeals, has upheld a similar tax which was challenged under the Commerce Clause.

Office of Legislative Research and General Counsel